What Investors Can Learn From the Bitcoin Bubble

Description

Bitcoin and pot stocks were much of the craze last year when it came to speculation or investing, whichever you decided to call it, and there were many millionaires that were made as a result of the hype. This year, however, is a much different story, specifically for Bitcoin.

The cryptocurrency is a mere shadow of its former self, losing more than half of its value since the start of the year. Trading at a peak of nearly US$20,000 back in December, the cryptocurrency has taken an epic fall down several flights of stairs and hovers now around just US$6,700.

HIVE Blockchain Technologies Ltd. (TSXV:HIVE), which went on the ride with Bitcoin, has also crashed this year with its stock down more than 70% since the start of 2018.

While many investors have taken their profits and can ride off into the sunset, many are left without buyers to sell it to now that **Facebook, Inc.** (NASDAQ:FB) has banned ads related to crypto trading, and **Alphabet Inc.** (NASDAQ:GOOG)(NASDAQ:GOOGL) has done the same.

Even financial institutions have warned customers of the dangers of buying Bitcoin, as many big banks have banned the purchase of cryptocurrencies on credit cards.

It's been a rough ride for Bitcoin investors, and although it hasn't completely crashed, Warren Buffett's words are ringing true for many that thought there would be no end to the cryptocurrency's ascent.

What can investors learn from this?

One thing that can be gained from the Bitcoin craze is a valuable learning experience, specifically to do with the dangers of speculating. While the temptation when seeing a rising valuation might be to assume that it won't drop in price, it's simply not rational to expect that. Bubbles have formed in the past, and markets have crashed very badly; investors shouldn't ignore those realities.

Expecting a stock will continue to rise is no more illogical than assuming it will continue to decline in price when it is falling. The problem is that when caught up in the hype and excitement of a rising stock or commodity price, rational thought has long since left the roller coaster.

Some investors may profit from speculating, but so will some gamblers at a casino, and that doesn't mean that it's a surefire way to make money. There are serious risks that come along with speculating that are often ignored, as investors see their peers doing so well and expect to be able to mimic those same results.

With speculation, there's a lot of luck involved, and the biggest mistake someone can make is confusing luck with ability.

Bottom line

The safest way that investors can protect their money is by putting it into stocks that have good fundamentals and strong prospects for growth. If you're investing solely by looking at a chart or price movement, you've crossed the line into speculation rather than investing.

Reading a chart to make investment decisions is no more logical than looking at your rear-view mirror when driving and ignoring what's in front of you.

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